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UNICEF Office of Internal Audit and Investigations 2017 annual report to the Executive Board

Summary

This report provides information on the activities of the Office of Internal Audit and Investigations (OIAI) during the year ended 31 December 2017. It presents an overview of OIAI, describes the key issues highlighted by its internal audit, investigations and advisory work, and provides information on the disclosure of internal audit reports during 2017.

In accordance with Executive Board decision 2015/11, the annual report provides an overall opinion, on the basis of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control. Responding to decision 2017/10, the report also provides further supporting analysis for its overall assurance opinion, together with more details of the investigations undertaken by OIAI during the year.

The management response to the OIAI report is presented separately, as requested by the Executive Board in decision 2006/18. The annual report of the UNICEF Audit Advisory Committee for 2017 is available on the Executive Board website.

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I. Executive summary

1. The Office of Internal Audit and Investigations (OIAI) provides UNICEF with independent and objective assurance and advisory services and investigations, in accordance with its Charter.

2. The internal audits performed by OIAI help UNICEF to improve its programmatic and other activities, to manage risk and to ensure effective governance. The Office also undertakes investigations into alleged misconduct to help the organization to implement a zero-tolerance policy on fraud, sexual harassment, abuse of authority and other misconduct. The OIAI quality assurance and improvement programme confirmed that the Office continued to operate in accordance with relevant professional standards during 2017; the next external quality assurance review is due in 2018.

3. The Office issued 27 internal audit reports during the 2017 audit year, together with 3 advisory reports. This total included five audits undertaken jointly with other United Nations agencies as part of the commitment by UNICEF to working together across the United Nations system to improve shared outcomes and maximize the efficiency of programmes and operational activities. Internal audit reports contained 240 recommendations directed at UNICEF, 51 of which were rated as high priority. Management has agreed in each case to take appropriate action to address the risks and issues identified.

4. As a routine part of its work, OIAI reviews the status of implementation of previously agreed audit actions to ensure that management is taking action to address any residual risks. Overall implementation rates for agreed actions remained generally satisfactory, although implementation had slowed for actions agreed in 2016. Management continue to focus on ensuring implementation of the oldest actions: the total of seven actions that were outstanding for more than 18 months as at 31 December 2017 was marginally higher than for the previous year (when there were five actions outstanding), but nonetheless still represents a sustained reduction from the 18 that were long outstanding at the end of 2015. Of the seven long-outstanding actions, management reported to OIAI that they expected five to be implemented by mid-2018.

5. In accordance with Executive Board decision 2015/11, the Office has provided an overall assurance opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls. In the opinion of OIAI, this framework remained generally satisfactory during 2017. Responding to Executive Board decision 2017/10, OIAI has this year provided further detail as to how it generated the overall assurance opinion, and how that opinion is evolving to provide an ever-more-useful picture of the organization for the Board and for executive management.

6. The Office continues to publicly disclose its internal audit reports, thus contributing to increased accountability and transparency to stakeholders, and the Office is pleased to report that UNICEF remained in compliance with the requirements of Executive Board decision 2012/13. A total of 16 audit reports were publicly disclosed during the 12 months from 1 January to 31 December 2017. No reports were withheld from publication.

7. This annual report responds to the request made by the Executive Board in decision 2017/10 to provide further details in relation to investigations undertaken during the year. The Office managed 116 investigation cases during 2017, closing 69 of these during the year. Substantiated allegations resulted in referrals for a range of responses, including disciplinary action, termination of contractual arrangements and

recovery action. (See annex 3 for further details on the individual cases closed during 2017.) The Office also provided advice and support to help management to reduce the future risk of fraud, other misconduct and mismanagement — most significantly during 2017 in the areas of preventing sexual exploitation and abuse, and in countering fraud, corruption and other abuse.

8. The Office continued to engage effectively with the Audit Advisory Committee (AAC) throughout the year, helping the Committee to fulfil its mandate and benefiting greatly from its counsel and support. The AAC monitored the work of OIAI and provided welcome advice to further enhance the effectiveness of the audit and investigations functions.

9. The Office is grateful to the UNICEF Executive Director and senior management for their strong support throughout 2017. UNICEF remains committed to developing and implementing appropriate responses to address the risks reported by OIAI. The Office is pleased to see developments in a number of key areas to strengthen UNICEF and its ability to achieve its objectives of delivering results for children and doing so effectively, efficiently and with probity.

10. The Executive Director provided the Office with a boost to its investigative capacity, with the addition of five new investigator positions with effect from January 2018. During 2017, the Office finalized its office management plan (OMP) for 2018–2021. In addition to increasing the number of investigators deployed, the OMP set out other steps to further strengthen the capacity and capability of OIAI to meet the evolving assurance and integrity needs of UNICEF effectively and efficiently. The Office is also revisiting its Charter, taking account of changes in professional and governance standards as well as the evolving needs of the organization and its stakeholders.

II. Annual assurance opinion for 2017

11. Executive Board decision 2015/11 requested OIAI to include in its future annual reports "(a) An opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control; (b) A concise summary of work and the criteria that support the opinion; (c) A statement of conformance with the internal audit standards to which UNICEF adheres; [and] (d) A view on whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage." In decision 2017/10, the Executive Board asked the Office "to provide further supporting analysis for such opinions in future annual reports". The OIAI annual report for 2017 responds to both of these decisions.

12. Internal audits provide assurance to the Executive Director and the Executive Board on the adequacy and effectiveness of UNICEF governance, risk management and control processes to ensure efficient and effective use of UNICEF resources; safeguarding of assets; compliance with regulations, rules and policies; and reliable reporting on financial and programme performance. Management is responsible for establishing and maintaining effective internal control, governance and risk-management processes to ensure organizational objectives are achieved; the responsibility of OIAI is to independently assess the adequacy and effectiveness of such a framework.

Basis of opinion

13. The annual assurance opinion is based on the results of the internal audits and other activities undertaken by the Office in 2017. The overall opinion is intended to

provide reasonable, not absolute, assurance for stakeholders and, in compliance with decision 2015/11, is based specifically on the work that has been performed.

14. As in previous years, the overall opinion is driven by three main factors: the average rating for the audits issued by OIAI during the year; the satisfactory implementation of actions agreed following prior audits; and the absence (or otherwise) of critical issues that might individually or collectively undermine governance, risk management and/or control within UNICEF and thus jeopardize achievement of its objectives.

15. The Office has taken two additional steps to sharpen its analysis in 2017, as requested by the Executive Board in decision 2017/10. First, it has provided a commentary on the spread of audit ratings across reports and its pattern in comparison with previous years (see table 1). And second, it presents a narrative analysis of issues and themes arising from audits, advisory engagements and investigations in 2017 (see section IX of this report). Together, these developments facilitate a more sensitive and nuanced view of governance, risk management and internal control in UNICEF, and provide more information to the Executive Board on the Office's findings and conclusions.

16. The risk-based planning methodology used by OIAI ensures that audit resources are directed towards the areas of greatest significance to the organization. This, together with the broad audit coverage obtained during the year, helps the Office to draw an overall conclusion. The 30 internal audit and advisory reports issued in 2017 comprised audits of activities in 22 country offices (including two follow-up audits), five joint audits with other United Nations organizations, and three thematic/headquarters reviews. Together, the country offices audited accounted for more than 37 per cent of UNICEF annual programme expenditure in 2017, and generally provided assurance on the organization's operational and programmatic activities and how funds were spent during 2016 and 2017. In addition, OIAI provided comfort on spending (and risk) across a range of other cross-cutting activity areas.

17. Based on the results of each audit, OIAI assigns it an overall rating. Listed from positive to negative, these ratings are: (a) unqualified; (b) moderately-qualified; (c) strongly-qualified; and (d) adverse. This four-classification rating and its associated criteria give management an overall picture of audit results of the organizational unit or function that was audited and help to focus attention, particularly on those audits that are rated "adverse" or "strongly-qualified". Adverse or strongly-qualified (unsatisfactory) ratings mean that OIAI audit work suggests that controls and processes related to the entity audited require improvement or significant improvement to be regarded as adequately established and functioning. Conversely, unqualified or moderately-qualified (satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended, with only relatively minor modifications needed.

18. Table 1 shows that 70 per cent of the 2017 internal audit reports that were rated according to the OIAI classification were considered satisfactory on the basis set out in the paragraph above. (See table 2 for the distribution of audit ratings, by region.) None of the reports issued on UNICEF offices and units in 2017 were rated as either unqualified or adverse.

Table 1
Comparison of audit report ratings, 2015–2017

	Unqualified	*Moderately qualified*	*Strongly-qualified*	*Adverse*	*Unrated Advisory*	*Total reports*	*Total reports rated*
2015	5	22	11	0	4	42	38
% of total	13%	58%	29%	0%			100%
2016	4	13	3	2	1	23	22
% of total	18%	59%	14%	9%			100%
2017	0	14	6	0	101	30	20
% of total	0%	70%	30%	0%			100%

Note: This total includes five joint audits, two ungraded (follow-up) country office audits, and three advisory engagements in 2017.

19. As table 1 shows, the proportion of audits graded as unqualified or qualified-moderate has declined slightly, from 77 per cent in 2016 to 70 per cent in 2017. (By comparison, the same statistic was 71 per cent in 2015.) However, OIAI would caution that it is difficult to draw firm conclusions from this single metric. The precise spread of audit ratings in a given year is driven in part by the portfolio of units audited. This is particularly significant in a year when the Office's audits more effectively targeted the most significant (and challenging) risks within each auditable entity, and when the proportion of audited offices operating in complex humanitarian situations increased, while the proportion of very small and much less risk-prone UNICEF offices (which more often tended to receive unqualified ratings) declined in parallel. Half of the offices audited in 2017 were responding to large and complex humanitarian crises and had commensurately high risk profiles, with two others being smaller but operating in equally challenging environments, and half of these scored satisfactory ratings. Against this backdrop, it is therefore also relevant to highlight that there were no adverse audit ratings issued in 2017, compared with two in 2016. Furthermore, follow-up audits found that both offices that received adverse ratings in 2016 had made very good progress in implementing corrective actions since then.

20. As audits focus increasingly on key risk areas, they should be more useful for the entire organization, playing a catalytic role in identifying risks that require better management and helping UNICEF to improve in those areas. In addition, UNICEF senior management is using audit results as a contribution to the performance appraisals of its country representatives; while this helps to increase the impact of the audit process, it makes it even more important that audits are clearly seen as helpful in improving the organization and supporting individual managers and teams to achieve their objectives.

21. As part of its audit activity, OIAI undertook regular desk reviews to follow up on the progress of implementation of actions agreed by management, together with on-site follow-up, as appropriate. Actions that have not been implemented for more than 18 months from the date of issuance of a final audit report are included in OIAI quarterly reports for the attention of the Executive Director, senior management and the AAC.

22. The implementation rate of audit recommendations as at 31 December 2017 was 99.6 per cent for reports issued in 2013; 100 per cent for reports issued in 2014; 99.1 per cent for reports issued in 2015; and 85.2 per cent for reports issued in 2016. The reduction in the implementation of actions for reports issued in 2016 is due mainly to slow progress by two units (of one headquarters division and one country office), and OIAI has engaged directly in both cases to help to ensure resumption of timely

implementation. Taken together, these implementation rates provide evidence that appropriate and timely action is being taken by management to improve governance, risk and controls; however, UNICEF should ensure that the implementation rate of actions from 2016 is accelerated.

23. The preponderance of satisfactory ratings from individual internal audit reports (70 per cent), together with the implementation rates for agreed audit actions across the organization (and particularly the continuing focus on older actions); the absence of any individual findings or themes that reveal fundamental flaws in the organization's governance, risk management and control systems; and the narrative on trends and patterns in key risk areas have allowed OIAI to provide an overall opinion on the adequacy and effectiveness of the UNICEF framework of governance, risk management and control.

Annual assurance opinion

24. **In the opinion of OIAI, based on the scope of work undertaken, the adequacy and effectiveness of the UNICEF framework of governance, risk management and control were generally satisfactory. Although internal audits identified a number of areas where internal controls and governance and risk management practices required strengthening, OIAI was pleased to note that management had committed to address, or was already addressing, these areas.**

25. The Office has been monitoring and supporting several management initiatives to strengthen organizational accountability and delivery systems. These include: drafting and implementation of an anti-fraud strategy; better leveraging of information technology and innovation; improving donor reporting; strengthening data privacy and security; and further expansion of the role of the Global Shared Services Centre (GSSC) in Budapest. These are all key enablers of improved organizational performance and OIAI will continue to engage with these initiatives in 2018.

III. Mandate and operations

26. The purpose, authority and responsibilities of OIAI are defined in its Charter, which is approved by the Executive Director. The Office provides UNICEF with an effective system of independent and objective internal oversight, which is designed to help the organization to fulfil its fiduciary responsibilities in achieving its programme goals for the protection and realization of the rights of children and women. Internal audits accomplish this by providing independent, objective assurance and advisory services, which are designed to add value to and improve the organization's operations. Investigations help the organization to implement a zero-tolerance policy towards misconduct, fraud and corruption by examining and determining the veracity of allegations of corrupt or fraudulent practices involving UNICEF and third parties, as well as allegations of other misconduct involving UNICEF staff, non-staff personnel, consultants and institutional contractors.

27. In 2017, OIAI continued to receive strong support and cooperation from UNICEF senior management. The OIAI Director had regular communication with the Executive Director and senior management to discuss the results of audits and investigations as well as progress in implementing the divisional workplan. The OIAI Director and other OIAI senior staff also participated in management meetings, steering committees and working groups to keep up-to-date with changes in the organization's activities and risk profile, and to engage directly with management on emerging key risks and issues.

28. The Office engaged in formal and informal discussions with other internal oversight functions within UNICEF, and participated in meetings with donors and their auditors and investigators to facilitate cooperation and collaboration. The Office also participated in the activities of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the United Nations Representatives of Investigative Services, and the Conference of International Investigators. With the other New York-based United Nations organizations, UNICEF co-hosted the annual conferences of the latter two organizations in 2017. Additionally, OIAI collaborated in five inter-agency audits to address common risks relating to the "Delivering as one" initiative in Viet Nam; operations of the Central Emergency Response Fund in Ethiopia; the Common Humanitarian Fund in South Sudan; and two audits involving the Sustainable Development Goals Fund.

IV. Independence and external oversight

29. The Office confirms that it was free from management interference during 2017 in determining the scope of its internal audit and investigations, performing its work and communicating its results. The AAC continued to provide independent advice to the Executive Director, to promote the effectiveness of internal audits and investigations. During 2017, the AAC reviewed the UNICEF Office of Internal Audit and Investigations 2016 annual report to the Executive Board, as well as the Office's 2017 workplan and quarterly progress reports on its implementation. The OIAI Director attended all AAC meetings in 2017.

30. In 2017, the United Nations Board of Auditors continued to rely on the internal audit work performed by OIAI. The Board, which is the independent external auditor of UNICEF, is routinely copied on internal audit reports as they are issued, to ensure they receive the findings on a timely basis. The Office also met with representatives of the Board of Auditors during the year to coordinate their work effectively and efficiently to avoid gaps or overlaps in assurance coverage; this involves sharing workplans and high-level results. The United Nations Board of Auditors also undertook a compliance review of OIAI as part of its work on the 2016 financial statements.

V. Professional standards

31. The work of OIAI follows relevant professional standards. Internal audit work is conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, which were adopted for use by RIAS in June 2002, and the OIAI Charter is being formally updated to reflect the latest changes to the Standards, which entered into effect in 2017. The Office conducts investigations in accordance with the Uniform Principles and Guidelines for Investigations, which were endorsed by the 10th Conference of International Investigators in 2009, and in conformity with due-process principles stipulated in chapter X of the United Nations Staff Regulations and Rules.

32. The Office maintains a quality assurance and improvement programme, which includes internal quality assessments that involve ongoing performance monitoring and periodic reviews, and external quality assessments conducted or facilitated at least once every five years by a qualified independent external reviewer. The last external quality assessment was conducted in 2013 and the office will commission the next external assessment in late 2018. In the meantime, the ongoing quality assurance and improvement programme confirmed that the internal audit activity

continues to operate in general conformity with international internal auditing standards as promulgated by the Institute of Internal Auditors, and that the investigations function complies with its professional standards and due-process principles.

VI. Resources

33. The OIAI structure had 33 staff positions in 2017: director, deputy director, 2 chiefs of audit, chief of investigations, senior professional practices auditor, editor, 17 auditors, 6 investigators and 3 administrative assistants. The position of deputy director was filled in August 2017. As at 31 December 2017, action was under way to fill four auditor positions that fell vacant during the year: these posts had been held back to establish a new OIAI outpost in the GSSC, together with five newly created investigator positions.

34. The Office had a budget allocation of $7.12 million for 2017, of which 91 per cent had been expended by year end. The largest expenditure categories were staff salaries and travel. In 2017, the Office engaged third-party consultants to support specific investigation activities, at a cost of $8,375. The Office also engaged the services of an operations staff member from a UNICEF country office to assist in an audit of an office other than his or her own, working under the direct supervision of the OIAI audit team. In 2018, OIAI will be expanding its use of these "guest auditors" by deploying programme staff to assist with audits: this will increase the programme expertise available to the audit teams and enable programme staff to have a broader view of the organization.

35. Based on its assessment of the evolving assurance needs of UNICEF through its risk-based planning, and given the extra injection of investigative resources and funding for improved technology approved through the office management plan 2018–2021, OIAI considered that its available resources were generally appropriate and sufficient during 2017. The Office will continue to periodically review and reassess its financial and human resource needs to ensure these remain adequate, taking into account factors such as the changing internal and external risk landscapes and the evolving internal control environment, including management's initiatives to strengthen the organization's second line of defence, such as refreshing enterprise risk management and devising and rolling out transaction-level monitoring.

VII. Internal audit workplan

36. The OIAI annual workplan is designed to identify the most significant risks to the achievement of UNICEF objectives and the audit engagements and resources needed to help to address those risks. In accordance with recognized good practice, the OIAI annual workplanning process uses a combined top-down and bottom-up approach to ensure identification of auditable risks across the organization. As appropriate, it includes field offices, headquarters divisions, organizational processes and inter-agency activities. The reports issued from audit and advisory assignments in 2017 are summarized in annex 1.

37. Through its dynamic risk-based planning, OIAI ensured adequate audit coverage of the main risks to UNICEF and that the Office deployed its resources effectively throughout the year. As in previous years, the largest component of the audit work in 2017 was at the country-office level, reflecting the organization's decentralized programming and management structure in which a substantial number of the risks identified in the OIAI risk assessment are managed by country offices, with the support of the regional offices and headquarters divisions. Cross-cutting risk

areas were covered both through these country office reviews and through the thematic exercises undertaken during the year.

38. The Office issued 27 final audit reports during 2017 together with 3 advisory reports; a further 4 audits or advisory assignments were in the draft reporting phase at the end of the year. Based on an ongoing assessment of the changing risk profile of UNICEF, as well as organizational change initiatives and priorities, a number of audits had been deferred, while others were added to the workplan. These adjustments helped OIAI to provide the assurance required by its stakeholders and to make best use of the resources available. In common with previous years, the majority of the audits that had already started during the year, or were deferred, have been carried over to the 2018 audit workplan following a new risk assessment undertaken at the end of 2017.

39. During 2017, OIAI also revised its planning processes at assignment level to make these processes more risk-based and more relevant to the assurance needs of UNICEF. Audits are now engaging more concretely with the key risks and issues with which Management at all levels wrestles every day. The new approach is helping the audit teams to focus more clearly on issues critical to the organization, such as management culture, effective programme design, fraud-proofing programmes and other activities, ensuring robust and reliable evidence of programmatic results, and mainstreaming safeguarding and child protection across UNICEF. Accordingly, it will increase the impact of OIAI in supporting UNICEF to achieve its goals and objectives. The reception from management to the reoriented approach has been very positive.

40. Finally, as one of its priorities for the second half of 2017, OIAI revisited and revised its working methods to accelerate the process for clearing and releasing audit reports, both within the office and to management, including streamlining quality control and review processes, focusing the audit work (and reporting) more tightly on the key risks and issues that really matter to UNICEF, and devolving more responsibility for the end product to the audit teams.

41. This has already yielded significant benefits and resulted, in particular, in a significant improvement in turnaround times, with 10 of 14 draft audit reports released from April 2017 onwards being issued within the 60-day target (and 3 of the remaining 4 missing the target by less than one week); 11 of the 14 were finalized within 120 days, with an average time of 112 days to finalization. Some reports will inevitably be more complex and difficult to conclude than others, particularly as OIAI increases its focus on high-risk areas; however, the Office recognizes the importance of and remains committed to providing timely information to its stakeholders, including the Executive Director and the Member States.

VIII. Disclosure of internal audit reports

42. Through public disclosure, the Office's audit work directly contributes to UNICEF providing greater accountability and transparency to its stakeholders. In accordance with Executive Board decision 2012/13, OIAI has publicly disclosed internal audit reports issued since 30 September 2012. The Office and management have reviewed their respective processes to ensure timely clearance of reports for publication, and in 2017, UNICEF continued to be in compliance with the decision in disclosing the results of its audits.

43. A total of 16 audit reports were publicly disclosed during the year; none were withheld from publication. Four of the remaining audit reports issued as at 31 December 2017 were awaiting responses, while OIAI was processing responses

from management and/or Member States for a further five. Seven reports were not yet due for disclosure at the end of 2017 as they had been issued in the last part of the year. All internal audit reports disclosed to date may be viewed at <www.unicef.org/auditandinvestigation>.

IX. Internal audit results

A. Actions agreed by management

44. The 27 internal audit reports issued by OIAI in the 2017 audit year contained 240 recommendations addressed to UNICEF, and management had agreed action plans to address each of the risks and weaknesses that had been identified. Of the recommendations, 51 (21 per cent) were rated as high priority. See annex 1 for further details of the reports issued.

B. Distribution of audit ratings

45. The Office assigns an overall audit rating based on the results of an audit, as explained in section II above. Seventy per cent of the internal audit reports issued in 2017 that were rated were found to be satisfactory (i.e. either "unqualified" or "moderately-qualified"). The distribution across the regions follows.

Table 2
Distribution of audit ratings, by UNICEF region

UNICEF region Audit area	*Number of audits*	*Number of unqualified ratings*	*Number of moderately-qualified ratings*	*Number of strongly-qualified ratings*	*Number of adverse ratings*	*Not rated Not applicable*
West and Central Africa	6	0	3	2	0	1
Eastern and Southern Africa	5	0	4	1	0	0
Europe and Central Asia	4	0	4	0	0	0
Middle East and North Africa	4	0	2	1	0	1
South Asia	1	0	0	1	0	0
East Asia and the Pacific	1	0	1	0	0	0
Latin America and Caribbean	1	0	0	1	0	0
Inter-agency (note)	5	0	0	0	0	5
Total	**27**	**0**	**14**	**6**	**0**	**7**

Note: The inter-agency audits did not relate directly to UNICEF, but were a commentary on joint programmes. All five are therefore shown as "not rated/not applicable" in the table above.

C. Significant results from internal audit and advisory assignments in 2017

46. The audit reports issued by OIAI for 2017 covered country offices across all seven UNICEF regions, with a particular focus on Europe and Central Asia, the Middle East and North Africa, and the two regions of sub-Saharan Africa.

47. A number of key themes and recurrent issues emerged from the audit and advisory exercises undertaken in 2017, reflecting the audit unit's reorientation towards more upstream work and looking at the key risks and issues that may prevent

UNICEF from achieving its current and future objectives. Some of the more significant themes and issues are discussed below.

Risk management

48. UNICEF operates in increasingly risky environments, with a greater focus on challenging humanitarian emergencies where the risks may change very quickly. This requires a dynamic approach to managing the wide range of risks to which the organization is exposed; this approach must be flexible enough to adapt to different operating environments while not slowing down the UNICEF response to often rapidly moving situations, and must provide guidance to local management as well as an aggregation of assurance for top management.

49. Audits found a need to improve the guidance issued to and supervision of country offices to ensure that they take a holistic and integrated approach to risk management and that they correctly record and properly address the full range of key risks they face. UNICEF has been revisiting its enterprise-wide risk management approach; once this is in place, OIAI will review the revised framework and provide assurance on its effective roll-out.

Harmonized approach to cash transfers

50. In an increasingly challenging external environment, it is essential that UNICEF can obtain adequate assurance that funds have been spent properly. UNICEF uses the harmonized approach to cash transfers (HACT) to increase the efficiency of its control over cash transfers to implementing partners and to reduce the administrative burden placed on them. However, internal audits identified problems with HACT in country offices, both in the HACT process itself and in the way it is understood and implemented.

51. In particular, the audits found a need to move away from the current emphasis on the quantity of monitoring and assurance activities under HACT, and instead to ensure that the necessary quality of assurance is being obtained and appropriately used. UNICEF staff and managers need to be more aware not just of what they should be doing but also of why they should be doing it. This would not only reduce the risk that staff members fail to correctly operate controls, but would also encourage staff to think more creatively about how they can carry out their roles to add most value to UNICEF and help the organization to meet its goals. It would also offer opportunities to integrate assurance on expenditure with monitoring of programmatic progress, thus better using scarce staff time and facilitating a more complete and reliable picture of the performance of UNICEF programmes and implementing partners.

52. The Office will continue to support management during 2018 in reviewing the organization's monitoring and assurance processes to ensure that they can achieve their objectives and that they are correctly applied.

Data protection and privacy

53. The effective collection and appropriate use of data are key to the ability of UNICEF to mount effective campaigns, programmes and other initiatives. Much of the data relate to the children, families and communities with whom UNICEF and its partners work. Ensuring that the organization properly discharges its commitment to protect its beneficiaries requires a robust and consistent approach to data protection and privacy.

54. The Office undertook an advisory assignment on data-handling that identified several good practices across UNICEF that will help to further safeguard the beneficiary data that UNICEF and its implementing partners increasingly maintain

and utilize to support delivery of high-quality and impactful interventions. The advisory recommended a more a coherent approach throughout the organization to ensuring good data-handling practices, and OIAI supported management in identifying the gaps in current procedures and processes.

55. The advent of tighter data regulation and greater public awareness of the consequences of data security breaches are further raising the bar against which UNICEF and other organizations are judged in ensuring the safety of the data entrusted to them by supporters, donors, suppliers, beneficiaries, communities and staff. This requires a continuing focus on determining the risks around different data types, and designing and implementing controls accordingly. UNICEF divisions are already proactively addressing these risks in their own areas, and OIAI will be undertaking further work on data protection and privacy during 2018 to provide comfort to management that these critical risk areas are being managed successfully.

Safeguarding children and child protection

56. UNICEF placed a significant focus during 2017 on strengthening mechanisms to ensure protection from sexual exploitation and abuse. It had also in mid-2016 issued an Executive Directive on "Conduct Promoting the Protection and Safeguarding of Children" to all staff. The Office identified the need to complete the process of operationalizing this policy across all UNICEF locations, providing further guidance and monitoring to ensure that all offices effectively and consistently deal with the risks relating to staff and partners who gain direct access to children. UNICEF offices also require further support to minimize the risk of gaps emerging between organizational approaches to child protection programming, safeguarding children, and protection from sexual exploitation and abuse.

57. Management is taking further steps to ensure that there is an appropriate child protection and safeguarding culture among UNICEF staff and partners, and to raise awareness of risks in this area. The Office will be conducting work in 2018 to provide assurance that a coherent and effective approach to child protection and safeguarding is successfully embedded in and mainstreamed across UNICEF.

Preventing fraud, corruption and other forms of abuse

58. UNICEF increasingly operates in environments that have an inherently high risk of fraud, corruption and other forms of abuse, particularly in humanitarian emergencies. Internal audits have increasingly focused on this risk area and have made recommendations to strengthen the management response. These recommendations include better fraud risk assessments together with a programming approach that consciously builds fraud-proofing into the design of interventions, including embedding ways to gain positive assurance that money has been properly spent to generate the desired results. This is a much more effective and less costly way of addressing fraud risk than a primarily reactive approach, and will both help to ensure that maximum funding is available to be spent on programmes and to build and maintain the confidence of donors and supporters.

59. In the second half of 2017, UNICEF started work on an anti-fraud strategy. The Office has been engaging with this initiative and in 2018 will monitor how its roll-out contributes to strengthening the overall organizational response to this critical risk area.

Generating and sharing knowledge

60. As a knowledge-based organization, UNICEF generates significant understanding of the needs of children and how to meet those needs, but audits have found that there are not always mechanisms to ensure that this knowledge is available for use where it is most needed. This can be a downside of the organization's highly

devolved and decentralized management structure, but it does not need to be. In some cases, audits have found good sharing practices between offices with common or interconnected problems: for instance, the strong collaboration between the offices dealing with the crisis in and around the Syrian Arab Republic, which included an invitation extended to the Turkey Country Office (which is in the Europe and Central Asia Region) to participate in the regional management team meetings of the Middle East and North Africa Region. Similarly, audits in the Sahel region found that the offices were increasingly sharing knowledge and practices on common challenges, and OIAI also noted that efforts had been made in the Ebola response to boost collaboration and coordination through the appointment of a global coordinator.

61. Headquarters teams are also generating and sharing large volumes of knowledge within and across technical specialisms and there is a renewed emphasis on using technology to facilitate this, including electronic content management. This should additionally help to ensure the robustness and reliability of the evidence underpinning organizational results. Strengthening of the UNICEF evaluation function following the 2017 external peer review is a positive step, and OIAI will be working more closely with the Evaluation Office. However, knowledge-sharing generally seems to work better within regions rather than between regions or globally, and management should seek to build a culture that more actively promotes collaboration and coordination to help UNICEF efficiently and effectively achieve results for children.

X. Investigations results

A. Case management

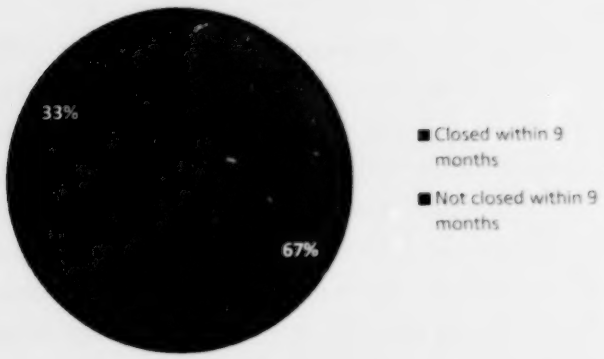
62. The Office managed 116 investigation cases during 2017 (see table 3). This comprised 42 cases carried over from the previous period together with 74 allegations received in 2017 that were found to constitute sufficiently serious suspicions of wrongdoing to merit investigation (versus 72 cases in 2016). By the end of 2017, 69 cases had been closed (versus 71 in 2016). A proactive effort by OIAI resulted in the closure of a number of older and more complex cases from previous years. The Office ended the year with a slight increase in its caseload, with 48 cases open.

Table 3
Investigation cases handled in 2017

Status of cases	*Number of cases*
Carry-over as of 1 January 2017	42
Intake during the year	74
Total caseload	**116**
Closed during year	(69)
Re-opened during year	1
Cases ongoing as of 31 December 2017	48

63. In addition to daily monitoring of the progression of investigations, OIAI has a formal indicator to monitor the timeliness of closure, with cases flagged if they are still open after nine months. While this is not strictly a target, as having a metric that penalizes keeping cases open for good reason would incentivize the wrong behaviour (with complex cases being closed quickly through inadequate investigatory work, just in order to meet a deadline), nonetheless it can help OIAI to focus on whether it is prioritizing the right cases to see whether it can improve its efficiency and effectiveness.

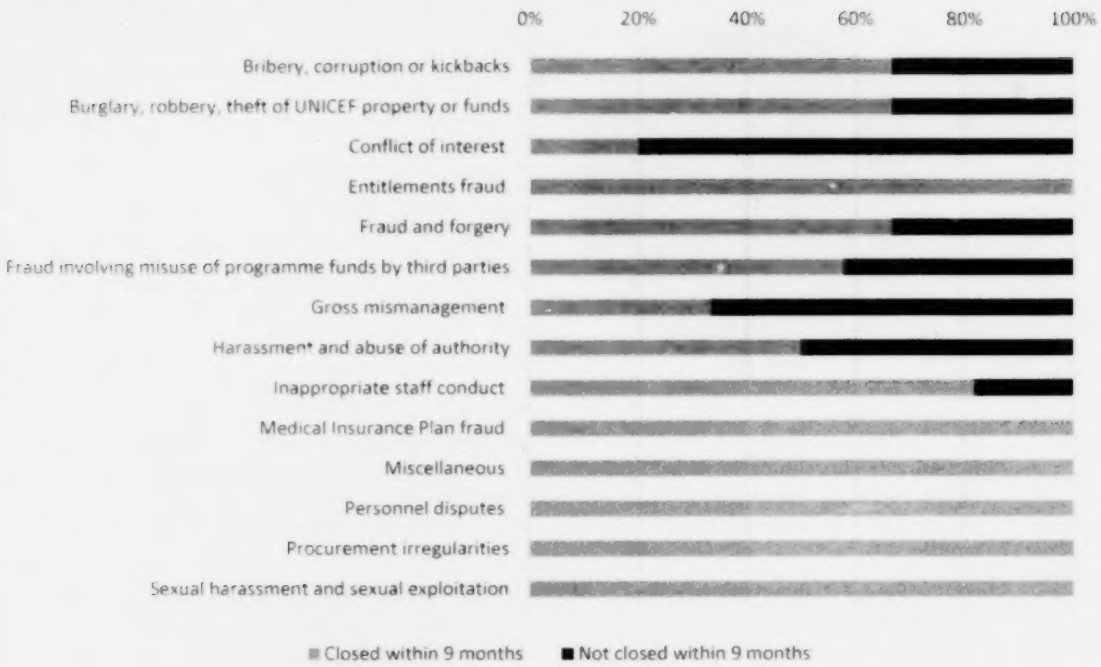
Figure 1
Percentage of cases closed within nine months in 2017



64. In 2017, OIAI closed 46 of 69 cases (67 per cent) within nine months, as shown in figure 1. This compares with 73 per cent in 2016, largely reflecting changes in the nature of the case portfolio and the fact that a number of complex older cases were closed in 2017. The average time spent by OIAI on each case during 2017 was 8.5 months.

65. Figure 2 shows the percentage of cases closed within nine months, by type. This demonstrates that the speed of closure is impacted by a number of factors, including the nature of the case (for instance, all cases of sexual harassment and sexual exploitation were closed within nine months) and its relative complexity (thus resolving cases of fraud involving external parties tended to take longer than entitlements fraud by staff).

Figure 2
Percentage of cases closed within nine months, by case type



B. Analysis of allegations received

66. The Office opened 74 new cases during 2017. These are analysed by type of allegation in table 4a. The largest category was alleged fraud involving misuse of programme funds by third parties (implementing partners, vendors, etc.) at 20 (2016: 12). The number of cases of alleged fraud and forgery was 11, while there were 8 allegations of inappropriate staff conduct (integrity issues, failure to comply with United Nations regulations, etc.) and 6 allegations of sexual harassment and exploitation. There was one case of alleged retaliation against a whistle-blower that was referred to OIAI by the Ethics Office.

Table 4a
Case intake, by category

	Number of cases
Bribery, corruption or kickbacks	5
Fraud and forgery	11
Fraud involving misuse of programme funds by third parties	20
Harassment and abuse of authority	2
Inappropriate staff conduct	8
Unauthorized use, misuse or waste of UNICEF property or funds	2
Conflict of interest	5
Entitlements fraud	3

	Number of cases
Gross mismanagement	2
Personnel disputes	2
Sexual harassment and sexual exploitation	6
Burglary, robbery or theft of UNICEF property or funds	1
Medical Insurance Plan fraud	2
Procurement irregularities	1
Whistle-blower retaliation	1
Miscellaneous	3
Total	**74**

67. Table 4b shows the breakdown of allegations received by location. As in 2016, two of the three regions with the most allegations were West and Central Africa at 27 per cent of the total (2016: 31 per cent) and Eastern and Southern Africa at 19 per cent (2016: 27 per cent). South Asia was the location of 23 per cent of the allegations in 2017 (2016: 11 per cent), while the Middle East and North Africa accounted for 16 per cent (2016: 10 per cent). The Europe and Central Asia region had no cases opened in 2017 (2016: 4 per cent).

Table 4b
Case intake, by location

Location	*Number of cases*	*Percentage*
Headquarters	3	4%
East Asia and the Pacific	4	5%
Eastern and Southern Africa	14	19%
Middle East and North Africa	12	16%
South Asia	17	23%
West and Central Africa	20	27%
Europe and Central Asia	0	0%
Latin America and Caribbean	4	5%
Total	**74**	**100%**

Note: Due to rounding, the percentages may not add up to 100 per cent.

Disposition of completed cases

68. In 34 of the 69 completed cases in 2017, the cases were closed because the investigation did not substantiate the allegation. Another five cases were closed due to the staff member resigning or retiring from the organization during the course of the investigation. Nine cases were closed after action was taken by the country office. The disposition of cases completed in 2017 is summarized in table 5, and details of each closed case are set out in annex 3.

Table 5
Disposition of investigation cases completed in 2017

Type of closure	*Number of cases*
Closure memorandum	**49**
1(a) Allegation not substantiated	34
1(b) Allegation in which staff member left the organization	5
1(c) Allegation with action taken by UNICEF office or partner (e.g. recovery of funds, or written reprimand)	9
1(d) Allegation in which no perpetrator could be identified	1
Investigation report submitted to the Division of Human Resources	**15**
Referral made to a UNICEF office, United Nations body or local authority	**5**
Total cases closed in 2017	**69**

69. The largest number of closed cases related to fraud involving misuse of programme funds by third parties (19 cases), which showed a significant increase from the cases closed in the previous year (2016: 11 cases), with the second largest category being 11 cases of inappropriate staff conduct (2016: 11 cases). There were also 10 cases of bribery, corruption or kickbacks.

70. The Office established financial losses to UNICEF from 20 cases (2016: 12 cases) amounting to $2,150,093 (2016: $1,223,860), of which $104,855 had been reported to OIAI as recovered by 31 December 2017 ($114,124 by 31 December 2016).

Disciplinary measures and other actions taken

71. The Office submitted 15 investigation reports to the Policy and Administrative Law Section of the Division of Human Resources (DHR) for consideration of disciplinary or other action. By the end of 2017, OIAI had recorded the following actions as having been taken:

(a) five separations;

(b) three demotions;

(c) one loss of steps;

(d) one staff contract was not renewed;

(e) one written reprimand; and

(f) one warning letter.

72. In five instances, the staff member resigned or retired during the investigative process. In these cases, a note for the record is placed in the staff member's official status file.

Investigation advisory services

73. Throughout the year, the investigations unit responded to a large volume of ad hoc requests for advice from management at all levels. In particular, OIAI provided support to senior management in relation to protection against sexual exploitation and abuse. The Office also engaged with management on the development of an anti-fraud strategy for UNICEF.

74. Proactive support is forming an increasing part of OIAI investigative activities. This helps management to deter, prevent or detect misconduct before it happens rather than expending time and risking loss of funds and reputational damage after the fact. The Office is developing a series of products to raise awareness among management across UNICEF of the exposures identified from cases of fraud and other forms of misconduct.

XI. Strategic road map

75. The Office has continued to develop and implement its strategic road map to strengthen its audit and investigations functions and thus meet the current and future assurance and integrity needs of UNICEF.

76. Initiatives undertaken in 2017 included reorienting the audit approach to focus on auditing key risks and issues for UNICEF. These include ensuring value for money, preventing or detecting fraud and corruption, effectively leveraging technology and innovation, and further strengthening programme management to deliver results for children. The Office also revisited the audit process to increase its pace of delivery; as noted above, this has already sped up the issuance of draft reports, despite their increasing complexity. The Office also began investing in tools and technologies to further improve the effectiveness and efficiency of audits and investigations, including data analytics; this investment will accelerate in 2018 when updated investigation software is also expected to come online.

77. The Office also made progress on plans for its new outposted teams, which will be based at the GSSC. The process of transferring existing staff to Budapest and hiring new staff members will take place over the course of 2018. This will provide significant advantages for OIAI, for UNICEF and for the individual staff members: it puts auditors and investigators closer to the field, reduces travel time and fatigue, and increases the time they can be deployed on mission, thus promoting effectiveness and productivity. It is also already demonstrating benefits in terms of increased liaison between OIAI and the GSSC.

Annex 1

Audit and advisory reports issued in 2017[1]

	Reference number	UNICEF audits	Number of agreed actions[a]		Report conclusion[b]
			Total	High priority	
		Field offices			
1.	2017/02	Kyrgyzstan Country Office	7	1	Q-M
2.	2017/03	Yemen Country Office	26	9	Q-S
3.	2017/04	Extended Follow-up Audit of the Iraq Country Office	8	4	Not rated
4.	2017/05	Tanzania Country Office	12	4	Q-S
5.	2017/08	Rwanda Country Office	8	1	Q-M
6.	2017/09	Follow-up Audit of the Chad Country Office	–	–	Not rated
7.	2017/10	Niger Country Office	10	2	Q-M
8.	2017/11	Angola Country Office	13	–	Q-M
9.	2017/12	Botswana Country Office	6	–	Q-M
10.	2017/13	Liberia Country Office	14	5	Q-S
11.	2017/14	Mauritania Country Office	12	4	Q-M
12.	2017/15	Lesotho Country Office	7	–	Q-M
13.	2017/16	Sierra Leone Country Office	16	4	Q-S
14.	2017/17	Mali Office	8	2	Q-M
15.	2017/18	Haiti Country Office	10	3	Q-S
16.	2017/19	Jordan Country Office	12	–	Q-M
17.	2017/20	Lebanon Country Office	21	1	Q-M
18.	2017/21	Pakistan Country Office	11	3	Q-S
19.	2017/22	Croatia Country Office	9	1	Q-M
20.	2017/24	Albania Country Office	10	2	Q-M
21.	2017/26	Ukraine Country Office	14	3	Q-M
22.	2017/27	Democratic People's Republic of Korea Country Office	6	2	Q-M
		Total	**240**	**51**	
		Joint audits[c]			
1.	2017/01	Delivering as One in Viet Nam[d]	14	5	PS[e]
2.	2017/06	Consolidated Report on the Audit of the South Sudan Common Humanitarian Fund[f]	NA	NA	NA
3.	2017/07	Joint Internal Audit of the Management of CERF Funded Activities in Ethiopia[g]	2	NA	NA
4.	2017/23	Joint Audit of the Governance Arrangements of the Sustainable Development Goals Fund[h]	7	3	U[i]
5.	2017/25	SDG Fund Joint Programme in Guatemala[j]	3	–	NA
		Total	**266**	**59**	
		Advisory services[k]			
1.	2017/28A	Humanitarian Cash Transfers	NA	NA	NA
2.	2017/29A	Emergency Cash Transfers in Yemen	NA	NA	NA

[1] Audit and advisory reports are listed by report reference number.

	Reference number	UNICEF audits	Number of agreed actions[a]		Report conclusion[b]
			Total	High priority	
3.	2017/30A	Data Handling Policy	NA	NA	NA
		Grand total	**266**	**59**	

NA = Not applicable.

[a] Some medium- or high-risk agreed action plans were communicated to the Executive Director confidentially to prevent organizational exposure to the related risks.

[b] Report conclusions may be classified as follows: unqualified (U); moderately-qualified (Q-M); strongly-qualified (Q-S); or adverse (A).

[c] Joint audits are conducted by the internal audit services in the United Nations system, in accordance with the Framework for Joint Internal Audits of United Nations Joint Activities. OIAI does not follow-up on the status of implementation of the recommendations made in this report.

[d] Joint audit led by UNICEF, with participation from the Food and Agriculture Organization of the United Nations (FAO), International Labour Organization (ILO), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Population Fund (UNFPA), United Nations Industrial Development Organization (UNIDO) and World Health Organization (WHO).

[e] "Partially satisfactory", in line with the rating system used for joint audits of Delivering as One.

[f] Joint audit led by UNDP, with participation from the United Nations, United Nations Office for Project Services (UNOPS), Office of the United Nations High Commissioner for Refugees (UNHCR), FAO, UNFPA and UNICEF. The consolidated report is a summary of four sets of separate audits, each of which was individually rated. Hence there is no consolidated rating for this report.

[g] Joint audit led by the World Food Programme (WFP), with participation from the Office for the Coordination of Humanitarian Affairs (OCHA), UNFPA, UNHCR and UNICEF.

[h] Joint audit led by UNDP, and participation from UNICEF and ILO.

[i] Unsatisfactory (adverse), as rated by UNDP as the lead agency.

[j] Joint audit led by UNDP, with participation from UNICEF.

[k] In addition to the advisory reports listed, OIAI also provided advice to management (without a report) in areas including: European Commission verification missions; information and communications technology governance; information security and privacy; and the Global Shared Services Centre.

Annex 2

Recommendations unresolved for more than 18 months

I. Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations — high priority; open 48 months)

1. Two recommendations pertain to the Office of the Executive Director agreeing to issue an Executive Directive that states the strategic vision and implementation framework for the UNICEF resource mobilization function, outlines the roles and responsibilities assigned to the Public Sector Alliances and Resource Mobilization Office (now the Public Partnerships Division or PPD) and other UNICEF organizational units; establishes a strategy and requirements to improve the quality and timeliness of donor reports at the global level; and clarifies the responsibilities of PPD and the regional offices regarding oversight and support on donor reporting.

2. Status: *According to the latest PPD update in December 2017, the accountabilities framework that has been drafted will be a part of the new resource mobilization strategy for the Strategic Plan, 2018–2021. The agreed date to finalize the draft for dissemination is the end of the first quarter of 2018. Both the Private Fundraising and Partnerships Division (PFP) and PPD were finalizing a first draft of the strategy, inclusive of the accountability framework, by the end of 2017. The recommendations continue to be relevant and will be closed upon the issuance of the revised Executive Directive for fundraising resource mobilization.*

II. Audit of the Management of Service Contracts in UNICEF's Headquarters Divisions, issued June 2015 (three recommendation — high priority; open 30 months)

3. Two recommendations pertain to the Division of Financial and Administrative Management (DFAM), agreeing to (a) revise the policy on the Contracts Review Committee; and (b) identify systems for transaction-level monitoring (including managing risks of potential splitting of contracts) and solutions enabling recording multi-year contractual arrangements through purchase orders within VISION.

4. Status: *The latest management update was in October 2017. The division (DFAM) was involved in the final rounds of consultation with stakeholders on the revision of the Contracts Review Committee policy supplement. Enhancements and changes proposed especially include simplifications to better respond to the needs of UNICEF offices operating in emergency contexts, members requiring procurement training, and the launch of the Contract Review Committee tool in 2018 to automate the related processes at headquarters and help to shape policy development. Technical solutions for transaction-level monitoring were under consideration. A revised policy is expected to be completed by Q2 2018, and will address the recommendations. Both recommendations can be closed after the completion of the proposed actions by UNICEF management.*

5. One *recommendation* pertains to the Ethics Office agreeing to evaluate the effectiveness and efficiency of the Conflict of Interest and Financial Disclosure Programme (CIFDP) policy, to determine whether it achieves its intended objectives and impacts; identify lessons learned from its implementation; and review and clarify the policy criteria for the type of staff to be included in the programme, to ensure that it is risk-informed.

6. Status: *The latest update was in December 2017. The Ethics Office plans to conduct a fit for purpose evaluation of CIFDP, to further evaluate its effectiveness and efficiency and determine whether it fully achieves its intended objectives. Programme implementation was delayed to first give the new Principal Adviser, Ethics, the opportunity to make changes to the programme before efforts were under way to evaluate its effectiveness. The agreed actions can be closed by OIAI once the proposed actions are implemented.*

III. Audit of the Kenya Country Office, issued June 2015 (two recommendations — medium priority; open 30 months)

7. One *recommendation* pertains to DFAM, relating to issuing budgeting tools and guidance to assist country offices in costing workplan activities and output results.

8. Status: *The latest management update was in October 2017. UNICEF is developing a budget formulation tool that will enable clear links to be made between resources and results as part of the programme design and planning process — helping UNICEF to strengthen its results-based budgeting focus. The tool complements the development of the programme strategy notes and country programme documents (CPDs) by empowering staff to estimate resources as part of the CPD development process. A phased roll-out and deployment is planned in Q2 2018. All country offices, including the Kenya Country Office, will be trained and using the system by the end of 2018. This recommendation will be closed upon completion of the planned activities.*

9. One recommendation pertains to DFAM agreeing to develop revised policy, procedure and guidance for records management in country offices, as part of enterprise content management.

10. Status: *The latest DFAM update was in March 2016, and referred to plans for recruitment of an enterprise content management project manager with responsibility for developing policy, procedure and guidance for records management. The recommendation was, at that stage, expected to be completed by the end of 2016. This recommendation will be closed upon completion of the planned activities.*

Annex 3

Investigation cases closed during 2017

No. *	*UNICEF region location***	*Allegation*	*Financial losses established to UNICEF (in United States dollars)*	*Investigation result*
Bribery, corruption or kickbacks				
1	EAPR	Project Officer seeking bribes	Nil	Investigation report submitted to the Division of Human Resources (DHR).
2	ESAR	Bribery in awarding a contract	Nil	Not substantiated.
3	MENA	Corruption in procurement and human resources	Nil	Not substantiated.
4	SAR	Procurement irregularities	Nil	Not substantiated.
5		Attempt to bribe an implementing partner	Nil	Allegation substantiated; no financial loss to UNICEF.
6	WCAR	Corruption, bribery and kickbacks reported by an implementing partner	Nil	Not substantiated.
7	WCAR	Corruption and extortion by a UNICEF staff member	Nil	Staff member left the organization. Note added to local personnel file.
16	WCAR	Corrupt diversion of funds	Nil	Not substantiated.
8		Corruption in purchasing	Nil	Investigation report submitted to DHR. Country office issued a warning letter to the staff member.
9		Fraudulent falsification of activities by an implementing partner	Nil	Not substantiated.
Burglary, robbery, or theft of UNICEF property or funds				
10	ESAR	Misappropriation of fuel	60	Investigation report submitted to DHR. Staff member was demoted by one grade.
12	WCAR	Theft of supplies	51,796	Closure memo issued: no perpetrator identified. Country office took action for negligence against staff members. A total of $43,347 was referred for write-off.

No. *	*UNICEF region location***	*Allegation*	*Financial losses established to UNICEF (in United States dollars)*	*Investigation result*
Conflict of interest				
13	Headquarters	Conflict of interest in procurement	Nil	Investigation report submitted to DHR. Staff member received disciplinary sanction (loss of two steps within-grade salary increment).
14	MENA	Staff member undertaking paid outside activities while employed by UNICEF	Nil	Not substantiated.
15	SAR	Attempted corrupt recruitment	Nil	Action initiated by the office and written reprimand issued.
17	WCAR	Fraud related to demurrage; fraud and conflict of interest in vehicle rental	Nil	Not substantiated.
Entitlements fraud				
18	SAR	Fabrication of attendance records	Nil	Investigation report submitted to DHR. Staff member was separated from service.
Fraud and forgery				
19	ESAR	Attempted fraud on non-United Nations personnel	Nil	Staff member left the organization.
20	MENA	Submission of fraudulent invoices for payment, forgery of authorizing officer's signature	5,394	Staff member left the organization. Amount fully recovered.
21	SAR	Forgery of another agency's documentation by UNICEF staff member	Nil	Not substantiated.
22		Payments of incentives	14,787	Allegation substantiated; $5,908 of loss recovered by UNICEF.
23	WCAR	Forgery, fraud and theft of funds by staff member	1,080	Investigation report submitted to DHR. Staff member was separated from service. Amount fully recovered

No.*	UNICEF region location**	Allegation	Financial losses established to UNICEF (in United States dollars)	Investigation result
11		Fraud relating to fuel cards	19,260	Investigation report submitted to DHR. Staff member was separated from service.
24		Fraud, forgery and theft of funds	Nil	Not substantiated.
Fraud involving misuse of programme funds by third parties				
26	EAPR	Fraud by implementing partner	13,838	Allegation substantiated; loss to be recovered by UNICEF (no recovery reported at year end).
25	ESAR	Fraud by implementing partner	777,809	Referred by OIAI: consideration of action by national authorities.
27		Fraud on UNICEF by implementing partner staff	319,473	Referred by OIAI: consideration of action by national authorities.
28		Fraud by implementing partner	Nil	Not substantiated.
29		Fraud by implementing partner staff	31,595	Partner agreed to reimburse losses; reported to national authorities.
30		Diversion of supplies by implementing partner	Nil	Not substantiated.
31		Fraud by implementing partner; conflict of interest with UNICEF staff connected with partner	Nil	Not substantiated.
32		Fraudulent diversion of UNICEF funds by partner	36,485	Allegation substantiated, and remedial action taken by partner. Amount recovered in full.
33		Partner re-selling UNICEF supplies	Nil	Not substantiated.
34	LACR	Fraudulent project documentation submitted by partner to UNICEF	55,580	Allegation substantiated, and remedial action taken by partner.
35		Corrupt recruitment by a partner of a consultant	Nil	Not substantiated.
36	MENA	Partner provided false supporting documentation	476	Not substantiated. Non-performance resulted in the partner refunding $476 to UNICEF.
37		Implementing partner failed to pay a consultant	Nil	Not substantiated.
38	SAR	Fraud and other misconduct by implementing partner	Nil	Not substantiated.

No. *	*UNICEF region location***	*Allegation*	*Financial losses established to UNICEF (in United States dollars)*	*Investigation result*
39	WCAR	Fraud on demurrage charges	134,000	The allegations could not be substantiated, although a loss was confirmed.
40		Misappropriation of funds by two implementing partners	144,506	Allegation substantiated, loss to be recovered by UNICEF (no reported recovery at year end).
41		Theft of supplies from partner-controlled warehouse	60,992	Case closed; no perpetrator identified.
42		Theft of supplies from partner-controlled warehouse	44,981	Allegation substantiated, and action taken by implementing partner. Amount recovered in full.
43		Fraud by implementing partner staff	1,542	Allegation substantiated, and action taken by partner. Amount recovered in full.
Gross mismanagement				
44	ESAR	Mismanagement/collusion by UNICEF staff in fraud by implementing partner	Nil	Not substantiated.
45	SAR	Failure to exercise due diligence when approving disbursement of programmatic funds	Nil	Not substantiated.
46	WCAR	Loss of UNICEF supplies	432,101	Allegation not substantiated, but loss established due to mismanagement.
Harassment and abuse of authority				
47	EAPR	Harassment, bullying and abuse of authority by manager	Nil	Not substantiated.
48	MENA	Harassment of staff member by managers	Nil	Referred for further action.
Inappropriate staff conduct				
49	EAPR	Staff member arrested for possession of illegal drugs	Nil	Staff member left the organization.
50	ESAR	Fraud in disposal of assets	Nil	Not substantiated.
51	Headquarters	Staff member involved in unauthorized outside activities	Nil	Not substantiated.
52		Staff member distributed video showing inappropriate content to other colleagues	Nil	Not substantiated.

No. *	*UNICEF region location***	*Allegation*	*Financial losses established to UNICEF (in United States dollars)*	*Investigation result*
53	SAR	Conflict of interest and irregularities in leave entitlements	Nil	Investigation report submitted to DHR. Staff member was demoted and received a fine.
54		Staff member alleged to have provided funds to support terrorism	Nil	Not substantiated.
55		Contravention of national laws resulted in detention of staff member by local police	Nil	Investigation report submitted to DHR. Staff member's contract was not renewed.
56		A staff member threatened another staff member	Nil	Investigation report submitted to DHR. Staff member was dismissed.
57	WCAR	Staff member drunk on duty	Nil	Investigation report submitted to DHR. DHR closed the case without prejudice to any sanction the country office may take.
58		Assault by a staff member	Nil	Investigation report submitted to DHR. Staff member was demoted by one grade.
59		Staff member receiving salary from UNICEF and from another source	Nil	No financial loss to UNICEF. Staff member to liaise with national authorities for return of any payment.
Medical Insurance Plan fraud				
60	WCAR	Submission of medical claims for reimbursement using fraudulent invoices.	4,338	Investigation report submitted to DHR. $4,085 of the loss has been recovered.
Miscellaneous (any allegations not covered in the other categories)				
61	SAR	Misuse of programme funds by a partner	Nil	Not substantiated.
62		Non-performance by an implementing partner	Nil	Not substantiated.

No. *	*UNICEF region location***	*Allegation*	*Financial losses established to UNICEF (in United States dollars)*	*Investigation result*
Personnel disputes				
63	SAR	Irregular recruitment process	Nil	Not substantiated.
64	WCAR	Irregular recruitment process	Nil	Not substantiated.
Procurement irregularities				
65	ECAR	Procurement irregularities including corrupt practices, misuse and transmission of official records for the private gain of staff member or others	Nil	Investigation report submitted to DHR. Staff member was dismissed.
Sexual harassment and sexual exploitation				
66	MENA	Sexual assault and sexual harassment by staff member	Nil	Investigation report submitted to DHR. Staff member resigned after investigation was completed.
67	SAR	Sexual exploitation by staff member	Nil	Not substantiated.
68		Sexual harassment by staff member	Nil	Not substantiated.
69		Sexual relationship between staff member and a candidate for a contract	Nil	Not substantiated.

* The entries in this table are not numbered consecutively; the reference numbers correspond to OIAI internal records.

** The UNICEF regions listed in this table are: ECAR: Europe and Central Asia; EAPR: East Asia and the Pacific; ESAR: Eastern and Southern Africa; LACR: Latin America and Caribbean; MENA: Middle East and North Africa; SAR: South Asia; and WCAR: West and Central Africa.

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For information

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Item 11 of the provisional agenda*

UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2017

Summary

The present report is submitted to the Executive Board in accordance with several decisions it has adopted, the most recent being decision 2017/10.

A status update on the implementation of agreed audit actions that remained open for 18 months or more at the end of 2017 is presented in the annex.

* E/ICEF/2018/8.

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I. Introduction

1. The present report has been prepared by the management of UNICEF in response to the UNICEF Office of Internal Audit and Investigations (OIAI) 2017 annual report to the Executive Board (E/ICEF/2018/AB/L.2).

2. Management is pleased to note that the OIAI assurance summary and opinion for 2017 is that, based on the scope of work undertaken, the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls were generally satisfactory during 2017. Similar opinions were issued in 2016 and 2015. Management continues to recognize that there is scope for further improvement and is committed to further enhancing policies, procedures, systems, staff practices and performance-monitoring mechanisms to assure appropriate governance, risk management and control practices throughout UNICEF. This response describes the actions that management has taken to date and planned actions for 2018 to address the key issues identified in the audits and investigations undertaken by OIAI in 2017, as summarized in that office's annual report.

3. UNICEF is committed to having an effective internal audit and investigations function that carries out its activities in accordance with the OIAI Charter. This commitment is reflected in the OIAI 2018–2021 office management plan (OMP), which pays attention to priority risks and issues faced by UNICEF. This commitment is also reflected in staffing. The 2018 staffing profile includes five additional investigator positions.

4. Management continues to appreciate the detailed quarterly reporting by OIAI on the implementation status of its annual workplan and on the follow-up to agreed audit actions, both of which are provided to management and to the UNICEF Audit Advisory Committee (AAC). This quarterly reporting helps management to systematically monitor the implementation of the agreed audit actions. The Division of Financial and Administrative Management (DFAM) was tasked with follow-up and reporting on internal audit recommendations across UNICEF. This focused effort led to relatively low numbers of audit recommendations open for more than 18 months. Further improvements are expected in 2018, as the follow-up process put in place in 2017 and regular reporting on outstanding recommendations are fully implemented.

5. UNICEF continues to welcome the valuable contribution of the AAC in reviewing and providing general guidance on OIAI workplans and reports, and its review of the UNICEF audit, evaluation and ethics oversight functions. Management has considered the advice provided by the AAC in its annual report for 2017 (available on the Executive Board website) on management actions to further strengthen governance, risk management and control at UNICEF.

6. Management notes that 22 internal audit reports of UNICEF activities were issued in 2017, with 51 high-priority actions out of a total of 240 actions agreed between OIAI and UNICEF management. Management also notes and appreciates OIAI participation in five joint audits, which covered the work of multiple United Nations agencies, including UNICEF. One of the five joint audits included recommendations specifically directed to UNICEF. Management recognizes that 12 of the reports issued in 2017 were from audits undertaken in 2016, and that 4 audits undertaken in 2017 were at various stages of report completion as of 31 December 2017 and will be finalized by OIAI in 2018.

7. Management continues to appreciate the advisory services provided by OIAI — which do not include recommendations or agreed actions. The advisory services in 2017 included support to UNICEF work with humanitarian cash transfers, globally and in Yemen, and UNICEF policies on the handling of data, undertaken through a

review of work in the Child Protection Section of Programme Division. The supported offices have noted the valuable contribution of the advice provided by OIAI.

8. Management notes the OIAI declaration that in 2017 it continued to operate in general conformity with international auditing standards as promulgated by the Institute of Internal Auditors. This is based on the independent quality assurance review conducted in 2013, the confirmation by the AAC in 2016 that OIAI had addressed the agreed improvement actions recommended in the 2013 review, and that Office's own self-assessment. Management is pleased to note that OIAI will commission the next quality assurance review in 2018, thereby complying with the standard of conducting such a review at least every five years.

II. Public disclosure of internal audit reports

9. Pursuant to Executive Board decision 2012/13, all internal audit reports are subject to public disclosure. The same decision provides for the Executive Director and the Member States to request the Director of OIAI to redact or withhold reports under certain conditions. Of the 27 audit reports issued in 2017 (22 to UNICEF offices and 5 joint audits with other United Nations agencies), management notes that 10 were publicly disclosed on the UNICEF website, www.unicef.org/auditandinvestigation/index_65818.html, as of 28 February 2018, and that the remaining reports were under review for disclosure following the established procedure. Nine reports from previous years were disclosed in 2017. Management notes that in 2017 no audit reports were withheld from publication and that all disclosed audit reports for the year can also be accessed through the UNICEF Transparency Portal, http://open.unicef.org/, which contains a wide range of information on UNICEF performance.

III. Management actions and plans to address the overall internal audit results

10. Management fully supports decision 2017/10 of the Executive Board, which in operational paragraph 5 "expresses concern about areas of risk consistently identified in the audit reports, namely, results-based management, governance and accountability, and supply and logistics, and urges management to prioritize the implementation of actions that address these recurring identified risks". Responding to this concern, UNICEF took the actions presented in the following section, which covers actions in 2017 and early 2018, and what is planned for the balance of 2018, to further strengthen performance in these core areas of UNICEF work.

11. UNICEF management notes the key themes and recurrent issues emerging from the 27 audits and the advisory exercises undertaken in 2017 by OIAI. Management carefully reviewed the issues raised in the audit and advisory reports from OIAI and greatly appreciated the recommendations from OIAI. Management welcomes the Audit Unit's reorientation towards more upstream work, looking at the key risks and issues that may prevent UNICEF from achieving its current and future objectives.

Risk management

12. Management notes the issues raised by OIAI under the risk management category. In addition to already-existing risk management practices, in 2017, a corporate initiative was launched to develop a more coherent approach to enterprise risk management. This reflected the "value for money" principles of the UNICEF Strategic Plan, 2018–2021, and better addressed the inherent risks to implementing

the Plan. This initiative will help to consolidate the conceptual framework that will shape the design of the MetricStream-based risk management tool, to be implemented by the end of 2018 in all UNICEF country offices, regional offices and other offices and divisions. UNICEF also made significant strides in governance, risk and compliance efforts in 2017. The regulatory framework library went live in July 2017.

13. UNICEF will continue to enhance and strengthen the role of the operations function in risk management at the country-office level, providing additional capacity in DFAM for support to strategic operations to (a) facilitate managing a growing workload, (b) take a new business-partner approach that will ensure clearer, more direct service for clients, and (c) reinforce closer relationships with field-based operations staff who are at the forefront of applying the best practices in risk management. In addition, in the larger country offices, the position of a quality assurance officer has been established, with responsibility for, among other duties, assessing potential risks and advising on mitigation measures for implementation.

14. The Global Shared Services Centre (GSSC) was fully operational in 2017. The consolidation of key operational processes of all UNICEF offices to the GSSC reduces risk and improves efficiencies. Over the same period, specialized staff processed over 550,000 payments, administered 52,000 human resource cases, and processed the monthly payroll for over 13,000 staff. In 2017, the GSSC further advanced organizational performance and risk management through strengthened processes for the management of master data, which include information on such areas as partner, supplier and contractor contacts and accounts. The Centre's management plan for 2018–2019 expands on actions initiated in 2017 to further reduce fraud risk within UNICEF through a new detective reporting and data analysis capability.

15. The 2018–2021 OMP for the Supply Division includes 10 key strategies to support field offices to continually strengthen their supply functions. Implementation of these strategies will further enhance risk management in country offices, considering that supplies constitute a significant portion of UNICEF programme delivery.

16. Supply Division completed a major review of UNICEF general terms and conditions of contracts, purchase orders, long-term arrangements and solicitation documents to align them with best practices of similar organizations. The review resulted in revised contractual documents and guidance issued in Arabic, English, French, Russian and Spanish. Supply Division also developed guidance for country offices to assess the capacity of non-governmental organizations to conduct and manage construction works, and developed improved UNICEF guidance and systems for recording and monitoring goods-in-transit, expenditures for in-country logistics and customs-clearance monitoring.

17. Supply Division's well-developed processes for vendor evaluation and screening were extended to all UNICEF offices globally. To further improve UNICEF efficiency, an electronic system was developed in 2017 for the distribution of solicitation documents and receipt of bids. An electronic application was developed to handle the submission and approval of cases to the Contracts Review Committees throughout UNICEF. These tools are expected to be introduced to all field offices in 2018. In addition, in February 2018, UNICEF issued a policy on sustainable procurement, which is supported by a database of practical guidance, tips, case studies and tools for offices.

18. The training programme on supply and logistics continued in 2017, with more than 1,000 staff participating in face-to-face courses emphasizing contracting for services and emergency preparedness and response. To further supplement these trainings, an e-learning course on procurement in UNICEF was launched in English

and French. Over 2,400 UNICEF staff members enrolled in online learning courses in supply-related subjects, while more than 300 partners participated in face-to-face training events along with UNICEF staff to strengthen supply chain management.

Harmonized approach to cash transfers

19. Management notes the issues raised by OIAI under the category harmonized approach to cash transfers (HACT). UNICEF continues to strengthen programming practices and computer applications. By January 2018, more than 8,600 staff and 5,000 partners had completed the comprehensive HACT e-course developed in 2016. And in the same period, more than 6,700 staff and 1,500 partners had completed the specialized course on requesting and reporting on the use of HACT funds. In 2017, UNICEF revised the terms of reference for auditing implementing partners' HACT-related practices to align with the terms of reference of other United Nations agencies and with international auditing standards. The most significant simplification effort in 2017 was the introduction of a new tool, called eZHACT, for recording direct cash transfers across all UNICEF offices. This tool has significantly compressed the time between approval of payment and receipt of payment by the implementing partner, from an average of 7–10 days to 2–3 days. It has also eliminated data redundancies, strengthened internal controls and sped up the recording of implementing partner financial reports.

Data protection and privacy

20. Management notes the issues raised by OIAI under the data protection and privacy category. In 2017, OIAI received information it requested on the Yemen Emergency Cash Transfer (ECT) project implemented by UNICEF (targeting 1.5 million people) as part of the audit conducted in November 2017. In addition, advice was sought from OIAI on how to best manage the ECT cases it noted. The ECT project also relied on some of the findings from the previous audit of a Yemen humanitarian cash transfer project in two governorates to inform risk management in terms of beneficiary data confidentiality and protection (covering contractual provisions for beneficiary data protection, the Management Information System (MIS) network security and restricted access rights) and due diligence (cross-checking the contractors/subcontractors against the sanctions list). In 2017, the Child Protection Section issued the Report on Advisory Engagement: Data Handling Policy (2017/30A) to advocate within Programme Division for the development of field guidance on data privacy.

21. The advisory report was useful in bringing Programme Division focal points from across sections to a consensus about the need for guidance, and for defining the scope of this initiative, which aims to give field-level practitioners the tools they need to properly operationalize privacy and data security in programming contexts.

Preventing fraud, corruption and other abuse, and safeguarding and child protection

22. Management notes the issues raised by OIAI under the categories of preventing fraud, corruption and other abuse, and child safeguarding and child protection. UNICEF has a policy of zero tolerance for all forms of fraud, corruption, and sexual harassment and exploitation, including abuses of power and authority, and is fully committed to ethical practices. The organization strongly encourages reporting of misconduct and protects staff from all forms of harassment or reprisals for whistle-blowing. The Executive Director has made an unequivocal commitment to the zero tolerance policy, including through disseminating this strong message to staff members. In 2017, the Executive Director began issuing an annual memo to all staff

at midyear to report the actions taken by UNICEF during the previous year to address proven wrongdoings by staff.

23. Over the last five years, according to UNICEF data, there were 27 cases of sexual misconduct against UNICEF staff members. Of these cases, three are currently under investigation, and nine ended with the staff member's dismissal or separation. Fifteen of the cases were withdrawn or could not be substantiated.

24. Recent events have provided an opportunity for UNICEF to redouble its efforts to address sexual harassment (the subject of investigations reported by OIAI) and sexual exploitation and abuse (the subject of investigations and a thematic audit recommendation of OIAI). The events have provided a similar impetus to improve programming relating to protection from sexual exploitation and abuse and child safeguarding.

25. In 2018, UNICEF will establish a dedicated child safeguarding unit led by a senior adviser. The unit is intended to propel forward the work of UNICEF in establishing a comprehensive child safeguarding framework in the next year, supporting a coherent approach across areas of work: child protection programming, child safeguarding and protection from sexual exploitation and abuse. Upon the full operationalization of the framework, child safeguarding functions will be embedded in each division, under its respective accountabilities.

26. To reduce the risk of sexual misconduct or failures in child safeguarding by UNICEF personnel and partners, the following actions have been or will be pursued:

(a) Standards of conduct expected of vendors and partners concerning sexual exploitation and abuse and child safeguarding continue to be strengthened. The strengthening will take place through improved evaluation, changes to supply and partnership agreements, and dissemination of UNICEF policy standards. UNICEF co-led the development a United Nations system-wide Implementing Partner Protocol, endorsed by the United Nations High-Level Steering Group on sexual exploitation and abuse, designed to establish a common United Nations framework for addressing such issues and concerns with partners;

(b) The staff recruitment process is being strengthened, including by ensuring that all information is provided in response to targeted questions and is updated annually;

(c) A shared facility for reference, background and criminal-record check has been set up by UNICEF and other United Nations entities. The facility complements a United Nations system-wide database to screen candidates who have been separated by other United Nations entities because of sexual exploitation and abuse, or suspicion thereof. The facility and database are scheduled to commence operation in 2018;

(d) Professional references of candidates for staff roles will be subject to more thorough vetting through verbal contact with three professional references, including one from the most recent supervisor. In recruitment for senior positions, further inquiries will be made into the workplace environment the candidate is leaving behind;

(e) Mandatory training for staff members in protection from sexual exploitation and abuse was rolled out in 2017. The course has been made available to all implementing partners. Going forward, UNICEF will be requiring annual repetition of mandatory courses by all staff members. Staff will also be required to reattest to having read the Code of Conduct and to retake the Oath of Office annually;

(f) UNICEF contributed to the drafting of a uniform protocol on the sharing of information and protection of victims of sexual exploitation and abuse, which was

finalized in 2018, together with the Office of the United Nations High Commissioner for Human Rights (OHCHR);

(g) Specialized and general risk assessment and mitigation tools on sexual exploitation and abuse are under development and being tested.

27. To improve UNICEF early detection and improved response to sexual misconduct and child safeguarding, the following actions are being or will be taken:

(a) Internal mechanisms for reporting misconduct are being improved, including through a dedicated misconduct webpage and the creation of a referral hotline. UNICEF recently launched a pilot of an anonymous "one-click" monitoring tool on sexual harassment, to provide a live snapshot of office environments and to permit real-time non-investigative responses;

(b) All reports of sexual exploitation and abuse from the country level must be reported to senior management at headquarters within 24 hours. New technological tools are under development to fortify this reporting and escalation;

(c) Global standard operating procedures (SOPs) for community-based sexual exploitation and abuse complaint procedures have been developed and field-tested by UNICEF and the Inter-Agency Standing Committee. United Nations inter-agency standards for reporting incidents and sharing information are under development;

(d) The capacity of OIAI to address sexual exploitation and abuse has been fortified, with all current staff having completed specialized training;

(e) Programme Cooperation Agreements are being further strengthened to give UNICEF more robust powers of recourse where there are reasonable suspicions of sexual exploitation and abuse by partner personnel;

(f) Assistance to victims of sexual exploitation and abuse (including medical care, psychosocial support, legal assistance, safety plans and access to school and material assistance, as needed) has been scaled up. UNICEF and OHCHR led the creation of an associated protocol.

28. To provide further assurance that UNICEF is employing best practices in these areas, UNICEF has commissioned an independent evaluation of its response to protection from sexual exploitation and abuse, and a separate independent review of its response to harassment in the workplace.

29. A dedicated unit within OIAI carries out investigations in accordance with the Uniform Principles and Guidelines for Investigations, and in conformity with due process principles, as laid out in chapter X of the United Nations Staff Regulations and Rules. The established channels, including a dedicated email address that allows users to remain anonymous (integrity1@unicef.org) are being used to bring concerns and allegations of wrongdoing to the attention of OIAI. As stated in the OIAI annual report for 2017, the number of investigator posts will be almost doubled from 6 in 2017 to 11 for 2018–2021. Management looks forward to having the increased capacity to strengthen preventive actions and to conducting investigations in priority areas, including sexual harassment and exploitation.

30. Management notes that 74 allegations received in 2017 were found to constitute sufficiently serious suspicions of wrongdoing to warrant investigation, compared to 72 in 2016 and 90 in 2015. In addition, in 2017, OIAI managed 42 allegations accepted for investigations carried over as of 1 January 2017, for a total of 116 cases in 2017. The Office closed 69 of 116 cases and reopened 1 case in 2017, and carried 48 forward to 2018, a profile relatively similar to the one seen at the end of 2016.

31. Management continues to note with appreciation that OIAI assesses all allegations and investigates those that it believes warrant additional consideration.

Management notes that most cases are addressed within the prescribed time of nine months, as OIAI reports. This profile of closure within 9 months for cases in 2017, at 67 per cent, is close to that observed for 2016, at 73 per cent. Management recognizes that complexity and due process influence the time required to close cases. With the addition of five more investigator positions in the OIAI 2018–2021 management plan — for a total of 11 investigator positions – it is anticipated that the timeliness of case closure will significantly improve, especially those pertaining to allegations of sexual exploitation and abuse, sexual harassment, harassment and abuse of authority.

32. The majority of the 74 new investigation cases opened in 2017 consisted of fraud involving misuse of programme funds by third parties (20 cases); alleged fraud and forgery (11 cases); allegations of inappropriate staff conduct (8 cases); allegations of sexual harassment and exploitation (6 cases); and one case of alleged whistle-blower retaliation, which the Ethics Office turned over to OIAI to pursue, as is called for in UNICEF procedures.

33. As OIAI reports, of the 69 cases closed in 2017, 34 were closed because the allegations could not be substantiated, 9 were closed following action taken by a UNICEF office or partner, 5 cases were referred to another United Nations body or local authority in instances where the allegation was outside of UNICEF jurisdiction, and 1 case was closed because no perpetrator of the reported misdeed could be identified. Five cases were closed following the resignation or retirement of the staff member under investigation; and one case, involving a loss of $5,394, was closed, with the funds fully recovered. Management notes that when a staff member leaves the organization before an investigation is completed, staff rules allow UNICEF to recoup proven losses from the staff member's final payment. Two staff were separated from UNICEF following referral to the Division of Human Resources (DHR) in cases that identified $20,340 in losses, of which $1,080 had been recovered as at 28 February 2018.

34. Management takes note of the geographic origination of allegations in 2017, with the largest percentages distributed among the following regions: West and Central Africa (WCAR; 27), South Asia (23), Eastern and Southern Africa (ESAR; 19), and the Middle East and North Africa (MENAR; 16). Management highlights that with the relatively small number of allegations made annually, every case significantly impacts the geographic distribution. Management also notes that the distribution by region continues to approximately coincide with the scale of programmes, numbers of staff and the risk environment.

35. UNICEF pursues and seeks recoveries of all identified financial losses and notes the Executive Board's concern in decision 2017/10 to maintain diligence in seeking recoveries. All losses are pursued and recovery actions are regularly monitored.

36. UNICEF is strengthening the framework to pursue and seek recoveries from fraud loss. The initiative to develop a UNICEF anti-fraud strategy, which aims to consolidate preventive, detective and responsive protocols and mechanisms, was launched in October 2017. A draft anti-fraud strategy was submitted to executive management for review in December 2017 and was approved in early 2018. This strategy will be rolled out in the first half of 2018. Internal controls capacity was enhanced through a strengthened focus on the systems that enable coordinated monitoring of investigations resulting in financial losses due to fraud or misconduct. This will enhance consistency in efforts to recover losses across the organization.

37. The losses identified in closed investigation cases in 2017 were $2,150,093. This sum includes two cases from countries in ESAR, where losses of $1,097,282 (cases 25 and 27 in the OIAI annual report) were referred to local authorities because the issues are outside United Nations jurisdiction, and $432,101 lost by a country office in WCAR (case 46 in the OIAI annual report).

38. As reported by OIAI, there were six allegations of sexual harassment and exploitation. One case was substantiated, and the staff member resigned. Three cases were closed as unsubstantiated, and two cases continue to be investigated as at 28 February 2018.

39. Fifteen investigation cases were submitted by OIAI to the Policy and Administrative Law Section of DHR in 2017. Twelve of these cases were closed by DHR by 31 December 2017 through actions that included separations, demotions, a loss of step, a written reprimand, and a warning letter. Three cases with DHR remain open, with actions pending. In 2017, DHR also closed all five cases that had carried over from 2016.

Generating and sharing knowledge

40. Management notes the issues raised by OIAI under the category of generating and sharing knowledge. As a knowledge-based organization, UNICEF supports knowledge-sharing across all offices. UNICEF management acknowledges the findings in audits that identified good practices in knowledge-sharing between offices with common or connected matters, especially those that are managing emergencies.

41. Management is committed to fostering an even greater knowledge-sharing environment, using all available tools, including business platforms that both reduce the cost and increase the accessibility of knowledge-sharing for all UNICEF staff.

IV. Management actions and plans to address the recommendations from internal audit and advisory reports in 2017

A. Overview

42. UNICEF management appreciates the continued attention given to governance, programme management and operational support in the audits of country offices, as well as the findings reported by OIAI. UNICEF management appreciates the approach of reporting 'agreed actions' that signals the acceptance by management to implement actions to address the reported findings. In the audit reports, each agreed action is followed by the staff posts responsible for taking action and the date by which each action is planned to be completed.

43. OIAI notes that in 2017, the 22 audit reports issued that year to UNICEF country offices included 240 recommendations, of which 51 were rated as high priority. Management notes the continuing gradual annual decline in the percentage of actions that are rated as high priority in the last two years, from 23 per cent in 2016 to 21 per cent in 2017.

44. Management highlights that 6 of the 22 country offices audited in 2017 were operating in humanitarian programming environments. The offices in Jordan, Lebanon and Yemen are in Level 3 emergency environments, and the offices in Chad (follow-up audit), Iraq (follow-up audit) and Niger are in Level 2 emergency environments. Management is pleased to note that, within highly challenging environments, the offices in Jordan, Lebanon and Niger received satisfactory audit opinions (moderately qualified) and that the follow-up audits of the Iraq and Chad offices found that these offices, which had received adverse opinions in 2016, had made considerable progress in the establishment of satisfactory controls in areas identified by the audits.

45. Management notes that no audit report issued in 2017 included an adverse rating, compared to two audits with this rating in 2016. However, management notes with concern that in 2017, a total of 6 audits received a strongly qualified rating as compared to 3 in 2016 and 11 in 2015.

46. UNICEF management notes that of the 20 audit reports of UNICEF activities issued in 2017 for which OIAI issued ratings, 14 had a rating of moderately qualified, which is 70 per cent of all rated reports. In its annual report, OIAI notes that "unqualified or moderately qualified (satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended with only relatively minor modifications needed." Management notes that this is comparable to 77 per cent of audit reports rated as satisfactory in 2016, and 71 per cent in 2015. Management does note that in 2017, no office was rated unqualified, compared to 4 audit reports, from among the smallest UNICEF country offices, that received such a rating in 2016.

47. Management appreciates the sustained attention to follow-up by OIAI to offices that receive adverse audit ratings. The follow-up audits in 2017 of the Chad and Iraq country offices, which had received adverse ratings in 2016, supported the offices in improving their internal control practices and provided management with assurance that agreed actions were undertaken and sustained.

48. Management notes that all agreed actions issued in reports to 19 of the 22 country/area offices in 2016 were closed as at 28 February 2018.

49. In 2017, UNICEF initiated improved country office workplanning processes to integrate humanitarian response and to simplify the procedures for partnerships with civil society organizations. In 2018, UNICEF is reviewing its SOPs applied in emergency programming and is coordinating an inter-agency review of the Level 3 mechanisms to further accelerate timely and effective delivery of at-scale humanitarian response. In late 2018, UNICEF will review the Core Commitments for Children in Humanitarian Action, with reference to the analysis and recommendations in the 2017 report *Towards improved emergency responses. Synthesis of UNICEF evaluations of humanitarian action 2010–2016*.

50. To support country and regional offices operating in humanitarian contexts, UNICEF maintains an emergency response team (ERT) mechanism with staff based in the Office of Emergency Programmes (EMOPS) and other headquarters divisions who are temporarily deployed to support existing country office capacity when needed, especially at the onset of new emergencies or during sudden shocks in protracted crises. In 2017, a total of 14 ERT members undertook 58 missions to 25 offices — including the Rohingya response in Bangladesh, the Democratic Republic of the Congo, Somalia and Yemen — providing over 2,000 person-days of support for emergency coordination, operations, security, communications and technical support in all programme areas. Additional support was provided by staff from other UNICEF field offices — who benefit the assisted offices in times of acute crisis and who also bring back important emergency experience to their own offices — and from standby partners that UNICEF has identified in advance to speed placements in times of need.

51. Building on lessons learned and projected need, the ERT capacity during the period of the UNICEF Strategic Plan, 2018–2021 is being expanded to 25 members. The expanded ERT will include expertise in emergency cash transfers, accountability to affected populations, and gender in emergencies, and will strengthen UNICEF capacity to support more country offices concurrently. UNICEF is also revising the mechanisms to broaden the scope of expertise from offices and standby partners for emergency preparedness and response.

B. Status of activities to strengthen controls in country offices with medium- and high-priority actions

52. As at 28 February 2018, OIAI had closed 39 per cent of the actions from the audit reports of country/area offices issued in 2017 for which implementation reports were due by that date. OIAI has informed management that all 14 offices for which reports were due had submitted their reports by the required deadline. However, the action reports from four offices submitted in the latter half of 2017 are under review by OIAI and remain unclosed, and the reports from two other offices led to the closure of one agreed action in each of the two offices.

53. Regional offices continue to participate in audit exit meetings, on-site or remotely, to obtain a first-hand understanding of identified issues and to assist country offices in developing practical action plans, and further provide targeted support to offices that receive unsatisfactory (moderately qualified and adverse) audit opinions.

54. In the MENA region, 69 per cent of the agreed actions from the 2017 audit of the Yemen Country Office (strongly qualified) were closed by 28 February 2018; a second status report from Yemen was submitted in February 2018 and was pending review by OIAI. All agreed actions from the 2017 follow-up audit of the Iraq Country Office (not rated) were closed by 28 February 2018. The reports on agreed actions from the audits of the offices in Jordan and Lebanon (both moderately qualified) were not due as at 28 February 2018. Building on lessons learned in recent years, the 2018–2021 OMP for the Middle East and North Africa Regional Office (MENARO) includes strengthened teams for the management of HACT, monitoring and evaluation, and donor reporting across the region.

55. In 2017, MENARO monitored and supported overall strengthening of country office performance in areas including the management of budgets, accounts and assets, and staff recruitment. MENARO continued to advance staff skills in the region, holding workshops on contracting for services for the third consecutive year. In 2017, workshops included a specialized course in contracting for water, sanitation and hygiene services, which is the largest contracting type by value for country offices in the region. To assist staff operating in high-risk environments, MENARO advanced the peer-support volunteer function across offices in the region, and continued providing support from the regional staff counsellor.

56. To strengthen capacity in the Yemen Country Office, MENARO and EMOPS organized surge-mission support to address capacity gaps, including those identified in the 2017 audit report. MENARO also supported the establishment of a unit in the Yemen Country Office to manage that office's emergency cash transfer actions and the creation of a position for internal controls (P-4 level).

57. In WCAR, the audited country offices in Liberia (strongly qualified), Mauritania (moderately qualified) and Niger (moderately qualified) reported actions taken within two months following release of the audit report. The reports on agreed actions from the audits of the country offices in Mali (moderately qualified) and Sierra Leone (strongly qualified) were received by OIAI in February 2018 and are awaiting review. Following the audit of the Chad Country Office in 2016, which resulted in an adverse rating, a follow-up audit of the Chad Country Office (not rated) disclosed in 2017 reviewed actions taken to address the agreed-upon findings from the 2016 audit of that office, with no new recommendations issued.

58. The West and Central Africa Regional Office (WCARO) received approval to expand its regional oversight and support capacity from January 2018 in its 2018–2021 OMP, with the creation of new positions that address fraud prevention, evaluation, construction management, HACT, and staff recruitment and performance

assessment. Results-based management (RBM) training continues to advance in the region, having reached over 1,000 staff members by the end of 2017. WCARO further strengthened its attention to fraud and ethics in 2017 through the formation of a multi-office network of operations officers, which developed actions that will be mainstreamed across the region in 2018. WCARO supported the Liberia Country Office to secure closure of 71 per cent of the audit recommendations made to that office within three months of issuance of the report. It also supported the Sierra Leone Country Office in assessing its staffing structure and maintaining the Supply Officer post (P-5), which was established during the Ebola crisis. The Sierra Leone Country Office receives priority attention in the WCARO 2018 OMP.

59. In ESAR, timely implementation reports were issued by all offices audited in the region in 2017: Angola (moderately qualified); Botswana (moderately qualified), Lesotho (moderately qualified), Rwanda (moderately qualified) and the United Republic of Tanzania (strongly qualified). By 28 February 2018, 75 per cent of the recommendations issued to the United Republic of Tanzania Country Office had been closed. A second implementation report from that office was received by OIAI in February 2018 and was awaiting review. The Regional Office received approval to expand its regional oversight and support capacity from January 2018 in its 2018–2021 OMP, with the creation of new or upgraded positions for corporate performance, monitoring and evaluation, and knowledge management. These positions will enhance the fulfilment of the Regional Office's leadership and support role in the mutual accountability compacts established with country offices in the region. In 2017, the compacts continued the profile established in previous years, which include the effectiveness of internal controls and the efficiency of business processes, with attention to risk management and timely incident-reporting. ESARO continued its practice of peer reviews among offices in the region, which promotes knowledge exchange and identification of best practices for replication. A notable example in 2017 is the SOP on the minimization of fraud and looting risk developed by the South Sudan Country Office. The Regional Office continued to advance skill development with over 1,250 staff trained in RBM in 2016–2017. Training in performance management reached over 1,200 staff in 17 offices in 2017.

60. In South Asia, the report of agreed actions from the audit of the Pakistan Country Office (strongly qualified) was not due as of 28 February 2018. The Regional Office advanced the application of evaluation findings for continued programme improvement in 2017 through lessons-learned sessions in all regional meetings of programme specialists and senior management. In 2017, management advanced RBM and HACT training to include specialized materials and training for government and civil society programme partners. Support to the Pakistan Country Office has been increased to include the area of HACT management.

61. In the Latin America and Caribbean Region, the Haiti Country Office issued its first status report to OIAI on the agreed actions in the 2017 audit report, which included a strongly qualified audit opinion. The Regional Office received approval to expand its oversight and support capacity from January 2018 in its 2018–2021 OMP, with the creation of new positions in HACT, procurement services, and monitoring and evaluation, although recruitment for some of the posts is subject to the availability of funding. RBM training initiated in 2016 had reached 18 offices in the region by the end of 2017 and included participation from 62 partner organizations. The remaining six offices will complete RBM training in 2018. In 2017, the Regional Office completed a review of the supply and logistics management practices in the Haiti Country Office. A 2017 review of the quality of new country programme documents and strategy notes found two to be of high quality and three to have met established standards.

62. The Haiti Country Office, which received priority attention from the Regional Office, in 2017 received support in several areas: the major cholera and hurricane responses, emergency programming, performance monitoring, partnerships management, evaluation, and data generation, analysis and reporting. A total of 54 staff members participated in RBM training. In 2018, Regional Office support will continue in areas including programmes, HACT monitoring, evaluations and the application of RBM in partnerships management.

63. In the Europe and Central Asia Region (ECAR), all agreed actions from the 2017 audit of the Kyrgyzstan Country Office (moderately qualified) were closed by 28 February 2018. The reports on the agreed actions from the audits of the country offices in Albania, Croatia and Ukraine, with all three offices rated as moderately qualified, were not due as at 28 February 2018. In its 2018–2021 management plan, the Regional Office received approval to expand its oversight and technical support capacity in the areas of migration, staff well-being and ethics, security, information technology and supply and procurement, and to continue its support to HACT and partnership management. Ethics and fraud training was conducted with all UNICEF representatives in the region in 2017, with further actions planned for 2018, along with RBM training for all operations officers to supplement the online RBM training completed by approximately 200 staff members in 2017.

64. In the East Asia and the Pacific Region (EAPR), the 2018–2021 OMP incorporated structural changes designed to improve the oversight function in HACT and other areas. It including additional planning, evaluation, analysis and human resources. These aim to increase regional capacity to monitor country office performance.

65. Through emphasis on ERM, the East Asia and the Pacific Regional Office (EAPRO) is further developing its capacity to monitor, oversee and engage with country offices to improve overall performance and strengthen prevention and mitigation of the risk of fraud and misuse of resources. EAPRO continues to provide close oversight and technical support to country offices and partners, ensuring that capacity is built and zero tolerance of fraud policy is visibly applied. EAPRO continued to monitor the completion of ethics training. In 2018, the region will be an engaged and supportive partner in the application of the new anti-fraud strategy.

66. In 2016 and 2017, RBM was rolled out across EAPR and more than 400 staff were trained. The 2018–2021 OMP includes planned improvements in RBM by continued strengthening of the availability and quality of data for children, and by the piloting of the UNICEF Data for Children Strategy in priority countries. EAPRO undertook several other initiatives in staff skills development in 2017: the EAPR Career Initiatives of the peer exchange programme, online career campus, and the mentoring programme, as well as the long-term agreement for the coaching of supervisors. Moreover, eight performance management workshops were organized in the country offices, in addition to related webinars.

C. Management actions and plans to address the recommendations regarding headquarters and systems audits, advisory services, and inter-agency audits

Audits undertaken prior to 2017

67. The 2017 OIAI annual report lists seven audit actions that remained open for more than 18 months as of 31 December 2017, which is a slight increase from the five audit actions that had remained open for more than 18 months at the end of 2016.

68. The seven agreed actions are directed towards headquarters functions. The status of each agreed audit action outstanding for more than 18 months at the end of 2017 is presented in the annex to the report.

69. In 2016, OIAI issued four reports of audits of headquarters functions and systems, and thematic subjects. As at 28 February 2018, all agreed actions had been completed for two of these audits, and all actions contained in the two other audit reports are expected to be completed in 2018:

(a) **Procurement of Programme Supplies by Supply Division for delivery to Country Offices**: All agreed actions are closed;

(b) **ICT Infrastructure and Disaster Recovery Planning in Field Offices**: All agreed actions are closed;

(c) **Management of Other Resources**: OIAI has closed 13 of the agreed actions following implementation by management, and it is anticipated that the remaining 5 actions will be completed and closed in 2018;

(d) **Programme Division**: Following management's action, implementation of 13 of the 17 agreed actions has been completed, pending review and confirmation by OIAI. Management is addressing the remaining agreed actions and anticipates they will be completed and closed in 2018.

Advisory services provided in 2017

70. Following requests for support from management, the office provided advisory services in a number of areas, and produced two advisory reports, on Humanitarian Cash Transfers — one on global issues and one specifically for Yemen — and on the Data Handling Policy, which is based on a review of practices in the Child Protection Section. Reports from advisory services do not include recommendations. The Yemen Country Office notes with appreciation the support they received in addressing emergency cash transfer data errors and controls over fraud and corruption. The Child Protection Section notes with appreciation the advisory service report on the Data Handling Policy and has used the report to promote the development of field guidance to staff and partners on data privacy and security in programming contexts.

Inter-agency audits issued in 2017

71. Management notes with appreciation increasing engagement by OIAI with other United Nations agencies in the implementation of joint audits. In 2017, OIAI participated in five joint audits, serving as the lead agency in one. The Consolidated Report on the Audit of the South Sudan Common Humanitarian Fund included two recommendations to UNICEF, and these were closed before the report was issued. Four audits did not include any recommendations specific to UNICEF. However, the audits of Delivering as One in Viet Nam and the Sustainable Development Goals Fund Joint Programme in Guatemala included eight recommendations to the United Nations Resident Coordinator, to be addressed with support from the United Nations country teams, of which UNICEF is a member.

V. Management comments on the UNICEF Audit Advisory Committee annual report for 2017

72. UNICEF management continues to appreciate the important contribution of the AAC to the effective and independent oversight of the organization. As noted in the AAC 2017 annual report to the Executive Board, the committee members regularly interacted with the Deputy Executive Director (Management) and other senior

managers, and met with the Executive Director during the year. The three AAC meetings held in 2017 and the resulting reports and issue-specific strategic memorandums are valuable contributions to UNICEF oversight and management practices. Management appreciates the acknowledgement made by the AAC, in its 2017 annual report, of UNICEF consideration of the AAC suggestions.

73. UNICEF management appreciates the acceptance by the AAC of the request to expand the role of the Committee to include the evaluation function, and the addition of one new member to assure expertise in addressing this new role. Management also appreciates the uptake by the AAC of the suggestion for the Committee members to visit UNICEF offices and National Committees for UNICEF in members' home countries, as well as the visits made in 2017 to the ECA Regional Office and the GSSC. These have improved AAC awareness of UNICEF work and have strengthened UNICEF staff awareness of the role of the AAC. Management further appreciates the engagement of the UNICEF AAC members in 2017 with members of similar bodies operating in other United Nations entities. It also appreciates the plans of the AAC to propose revisions to its Charter in 2018 to better align the work of the AAC with the UNICEF Strategic Plan, 2018–2021, to the evolving professional standards for audit advisory committees, and to the priorities of the new Executive Director.

74. UNICEF management appreciates the active engagement of the AAC in management actions to address major organizational issues, which in 2017 included enterprise risk management, monitoring UNICEF governance risk and compliance initiatives, performance management systems, cybersecurity and data privacy. Management welcomed the opportunity to brief the Committee and discuss these issues in AAC meetings.

75. Management appreciates the Committee's consideration of the wide range of the organization's assurance functions for ethics, evaluation, and audit and investigations. Management also appreciates the review of the implementation status of the recommendations made by the United Nations Board of Auditors to UNICEF and the two meetings the AAC held with the Board of Auditors in 2017. Management also appreciates the AAC review of the UNICEF 2016 draft financial statements and management letters, with AAC advice incorporated into the final statements.

Annex

Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2017

Agreed action in the OIAI 2017 annual report	*Progress update*
Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations)	
Two recommendations pertain to the Office of the Executive Director's agreeing to issue an Executive Directive that states the strategic vision and implementation framework for the UNICEF resource mobilization function, outlines the roles and responsibilities assigned to the Public Sector Alliances and Resource Mobilization Office (now Public Partnerships Division, or PPD) and other UNICEF organizational units, establishes a strategy and requirements to improve the quality and timeliness of donor reports at the global level, and clarifies the responsibilities of PPD and regional offices regarding oversight and support on donor reporting.	For the period of the UNICEF Strategic Plan, 2018–2021, UNICEF plans to disseminate a new Resource Mobilization Strategy accompanied by the related Accountability Framework and inclusive of the reporting function. The revised strategy has been cleared by the Directors of PPD and the Division of Private Fundraising and Partnerships, and is under consultation with Regional Directors and various other directors at headquarters. The comments being received will be incorporated into a final strategy, expected to be completed by the end of Q1 2018.
Audit of the Management of Service Contracts in UNICEF's Headquarters Divisions, issued June 2015 (three recommendations)	
Two recommendations pertain to the Division of Financial and Administrative Management (DFAM)'s agreeing to revise the Contracts Review Committee (CRC) policy, and identify systems for transaction-level monitoring (including managing risks of potential splitting of contracts) and solutions enabling recording multi-year contractual arrangements through purchase orders within VISION.	As noted in the OIAI annual report, the final rounds of consultation with stakeholders on the revision of the CRC policy have taken place. The enhancements and changes proposed for simplification of the policy, training for CRC members in procurement, the launch of the CRC tool in 2018 to automate the CRC processes in headquarters, and assistance provided in shaping the development of the CRC procedures are expected to be completed by Q2 2018, addressing all the recommendations. Technical solutions for transaction-level monitoring are under consideration, while solutions enabling recording of multi-year contractual arrangements are already in place.
One recommendation pertains to the Ethics Office's agreeing to evaluate the effectiveness and efficiency of the Conflict of Interest and Financial Disclosure Programme (CIFDP) policy to determine whether it achieves its intended objectives and impacts, to identify lessons learned from the programme's implementation, and to review and clarify the policy criteria for the type of staff to be	With the 2017 CIFDP exercise having been completed at the end of 2017, the Ethics Office plans to conduct a Fit for Purpose Evaluation of the programme during the first half of 2018. The implementation was delayed to first give the new Principal Adviser, Ethics, the opportunity to make changes to the programme and then evaluate its effectiveness.

Agreed action in the OIAI 2017 annual report	*Progress update*
included in the programme to ensure that it is risk-informed.	
Audit of the Kenya Country Office, issued June 2015 (two recommendations)	
One recommendation pertains to DFAM, to issue budgeting tools and guidance to assist country offices in costing workplan activities and output results.	UNICEF is developing a Budget Formulation Tool, a web-based financial planning tool that will enable clear links to be made between resources and output results as part of the programme design and planning process. With requirements definition and system design having been completed, the tool is presently in the "build" phase, and corresponding guidance will be developed. Testing and training will take place along with phased roll-out and deployment during the first half of 2018. Country offices, including the Kenya Country Office, will be trained and using the system by the end of 2018.
One recommendation pertains to DFAM's agreeing to develop revised policy, procedure and guidance for records management in country offices, as part of Enterprise Content Management (ECM).	Following recruitment of dedicated resources for the organization-wide ECM management initiative, UNICEF has developed retention schedules, a paperless records classification plan and other resources for utilization in the field, scheduled for release in Q1 2018.